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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 006279

SIPDIS

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TAGS: [ECON](#) [ETRD](#) [EFIN](#) [KIPR](#) [IS](#) [ELECTIONS](#) [GOI](#) [INTERNAL](#) [ECONOMY](#) [AND](#) [FINANCE](#)

SUBJECT: VPM OLMERT PREDICTS HIS OWN POLITICAL FUTURE, AND
THAT OF THE 2006 GOI BUDGET

REF: TEL AVIV 06247

Classified By: Ambassador Richard H. Jones for reasons 1.4 (b) and (d)

1. (C) Summary: During an October 31 introductory meeting Vice Prime Minister Ehud Olmert (who also is acting Minister of Finance and Minister of Industry, Trade, and Labor) told the Ambassador that the Israeli economy was performing well, and that his challenge was to figure out how to spend a revenue windfall before the end of the year. Olmert identified solving poverty as priority number one for his expected term as Minister of Finance. Regarding pending IPR discussions over the Patent Term Extension (PTE) legislation, Olmert was hesitant about becoming involved in negotiations because of what he described as a "slap in the face" from the U.S. during the Special 301 review. Olmert concluded the meeting by appealing for action on the GOI's request for Gaza disengagement assistance for Negev development. End summary.

Acting Minister of Finance

2. (C) Olmert told the Ambassador that it was unlikely that his appointment as permanent Minister of Finance would be approved by the Knesset the week of October 31, because some Likud members who consistently opposed Sharon on disengagement are determined to vote against a package of ministerial appointments that they claim reward MKs who were loyal to PM Sharon during disengagement. The contentious appointments include MK Roni Bar-On to replace Olmert as the minister of Industry, Trade, and Labor and MK Ze'ev Boim to serve as Immigrant Absorption Minister, a position now held by Minister of Justice Tzipi Livni. Olmert said that he was uncertain whether, if the appointments failed to win Knesset approval on October 31 (as they did, see reftel), the PM would seek separate approval for his nomination in a second vote or if he would again put the nominations forward as a package. Ever confident of his own political standing, Olmert said that his appointment would easily garner 70 votes in the Knesset if brought without the other nominations. Olmert also commented that the vote on ministerial appointments would be a good indication of the prospects for the 2006 budget. (Note: Several hours before the October 31 vote, lacking a Knesset majority, Sharon decided to delay the vote on the nominations by one week. End note.)

The Budget

3. (C) Responding to a question from the Ambassador regarding prospects for the 2006 budget, Olmert said that there would be no change in the basic framework of the budget for 2006, but that he was considering whether a 1% growth in expenditures would be sufficiently large during subsequent years. Olmert noted that the 1% cap reflected fiscal discipline that Israel chose to impose on itself to help control the rising deficit and the ever-present temptation by the government to overspend. While acknowledging a 107% debt-to-GDP ratio, Olmert questioned the logic of holding spending growth below population growths. Olmert cited a 1.7% increase in real population last year, while government expenditures rose only 1%, resulting in falling per capita government spending. Olmert also noted that GOI Central Bureau of Statistics forecast 5% GDP growth in 2005, and his new responsibility was to figure out how to spend the unexpected windfall.

The Poverty Report

4. (C) Olmert reiterated his commitment to acting on the poverty report, citing it as priority number one. When questioned by the Ambassador about the decrease in unemployment figures, Olmert responded that the numbers do not always tell the full story, as many of those who are no longer listed as unemployed are employed in part-time jobs. Olmert was complimentary of former Finance Minister Netanyahu for his reform agenda, but said that he was committed "to helping correct the social price that some economic reforms created." He also noted that the positive effects of many reforms, such as the port privatization and Bachar capital

market reforms, would not be felt for several years due to long timelines for implementation.

Trade and Investment

15. (C) Olmert said his next highest priority is enhancing economic growth. He said that "high tech is the name of the game," and described a \$5 billion investment that Intel is expected to make in Kiryat Gat as the type of partnership for growth that the GOI wants to support. Indeed, the GOI has agreed to grant nearly \$600 million to encourage Intel to build its Fab-28 plant there. Olmert said that he expected more than 2,000 jobs to be generated by the new investment. On broader commerce issues, Olmert reiterated his plans to remain involved with the business community, saying that "if I'm here (MOF) or if I'm there (MOITL), I'll still be helping to run (our trade policies)."

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Why should I negotiate for a slap in the face?

16. (C) Olmert visibly bristled when the Ambassador broached the topic of intellectual property rights (IPR) protection in Israel. Olmert told the Ambassador that it is difficult for him to convince other GOI ministers to engage in IPR negotiations with the U.S. when "I tried to make a deal and I got a slap in the face." (Comment: This is not the first time that Olmert has expressed to USG officials that he has taken personally placement of Israel on the Priority Watch List during 2005 301 Review. End comment.)

17. (C) On other bilateral trade issues, Olmert was more upbeat, noting positive progress on long-standing standards problems. Olmert reminded the Ambassador that, out of respect to USG concerns, Israel has still not joined the EU standards organization. The Ambassador thanked Olmert for the positive work that has been done so far, but emphasized the need to look towards comprehensive solutions to the standards issue. Regarding government tenders, Olmert said that he wanted to be made aware of any complaints or cases that were not quickly resolved by working-level officials in his ministry. Olmert claimed that often when U.S. companies do not win GOI tenders, it is because they choose to bid via European subsidiaries for their own reasons, e.g., to minimize tax bills.

Aid for Negev Development

18. (C) Olmert concluded the meeting by asking about the status of the GOI request for USG assistance for Negev development. The Ambassador noted the GOI decision to postpone technical discussions in the aftermath of Hurricane Katrina, and said that the next step in the process was for the GOI to respond to the USG technical questionnaire. The Ministry of Finance plans to submit answers to the questionnaire on November 7. Olmert underlined that USG funding for Negev development is an integral part of the disengagement plan, and would not soon be forgotten in Israel.

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JONES